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RIO TINTO Public Relations
Rio Algom Mines Limited
335 Bay Street
TORONTO, 1, Ontario
---------362-1811---------

FOR IMMEDIATE RELEASE

F R I D A Y,
June 12th, 1964

file

THE CONSOLIDATED ZINC CORPORATION OF CANADA LIMITED

VAUZE MINES LIMITED (N. P. L.)

The sale by The Consolidated Zinc Corporation of Canada Limited of 1,830,600 shares of VAUZE MINES LIMITED, representing 50.02% of the outstanding shares of that Company, to Mr. J. Patrick Sheridan and Mr. Graham H. Duff at a price of 71 cents per share is announced today by Mr. W. A. Arbuckle, President of the Company.

Messrs. Sheridan and Duff have agreed to make an offer, within a period of 30 days, to all other shareholders of Vauze to purchase their shares at the same price of 71 cents per share.

Messrs. Sheridan and Duff have today taken over management of VAUZE and Messrs. H. George De Young, W. A. Arbuckle, G. Baker, W. B. Malone and R. D. Lord, all of whom are associated with Consolidated Zinc of Canada, have resigned as Directors of VAUZE.

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NORTH AMERICAN GAS LTD

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1965

NORTH AMERICAN GAS LTD
1600 SHERMAN · SUITE 400 · DENVER, COLORADO 80203 · TELEPHONE (303) 534-2374

PROGRESS REPORT AS OF JUNE 1, 1966

In keeping with the plan of broadening its base through the acquisition of properties, the Company has entered into a proposed merger, subject to Board and Toronto Stock Exchange approval, with Impact Explorations of Dallas, Texas. Impact Explorations is engaged in a new type seismic method which greatly reduces the cost of geophysical exploration for oil and gas. The proposed merger would entail North American receiving all the outstanding stock of Impact Explorations, namely 250,000 shares, on a share for share exchange basis. Further details about Impact Explorations and its activities and operations will be discussed in a future letter.

North American is participating in four wildcat wells in Texas, the first of which is now drilling at approximately 3,000 feet. All four locations are on geophysical highs and are considered excellent prospects. The Operator drilling these wells has just recently completed nine discoveries out of ten wells drilled on similar prospects. If successful, these wells will enhance the income and reserves of North American Gas Limited.

During the latter part of May, the liquid assets deposited as security for the $1,800,000 principal amount of outstanding class "A" convertible demand debentures were applied to the payment of such debentures. This reduces the outstanding bond indebtedness from $4,000,000 to $2,200,000.

The Company has completed the #1A Philpott well in Garfield County, Colorado as a dry hole. No further exploration on this prospect is anticipated.

Management is in the final stages of negotiations for the purchase of the first of a group of oil producing properties as mentioned in the President's letter in the Annual Report. We are bringing up-to-date the engineering data on this property. When the acquisition is accomplished, you will be supplied with full details as to the estimated reserves and predicted income of this project.

DIRECTORS

DANIEL DALY
New York City, N.Y.

H. W. JAMIESON
Director, Microwave Electronics Corp.

J. GREELEY McGOWIN II
W. T. Smith Lumber Co., Inc.

JOHN J. PASCOE
Director, Portlatch Forests, Inc.

FRED W. POOL
President, North American Gas, Ltd.

JOHN S. RALSTON, JR.
Vice-President, North American Gas, Ltd.

A. DEWITT SMITH
Vice-President, Wilkes Barre Publishing Co.

JOHN P. WEYERHAEUSER III
Manager, Marketing Research & Merchandising
Division of Weyerhaeuser Co. Wood Products

TRANSFER AGENTS AND REGISTRARS

EASTERN & CHARTERED TRUST CO.
Montreal, Quebec
Canada

INTERNATIONAL TRUST CO.
Montreal, Quebec
Canada

COUNSEL

United States

McCARTHY & WHITE
502 mile High Center
1700 Broadway
Denver, Colorado 80202

Canada

TORY, TORY, DesLAURIES & BINNINGTON
Barristers & Solicitors
50 King Street West
Toronto, Ontario

AUDITORS

United States

ARTHUR ANDERSEN & CO.
Denver, Colorado

Canada

ARTHUR ANDERSEN & CO.
Toronto 1, Canada

President's Message

To the Shareholders:

We are pleased to present our Annual Report for the fiscal year ended December 31, 1965. The year 1965, as you know, represented a major change in the operation of your Company. In May the Company sold substantially all of its mining interests in Canada and terminated its mining activities. It did, however, through its wholly owned subsidiary, Coopergate Mines Limited, and in conjunction with St. Lucie Explorations Limited, continue exploratory drilliny operations in Cuvillier Township, Quebec. Unfortunately, there were no zones of commercial grade ore encountered in this exploration.

The change-over of management and operations from mining activities to oil and gas has consumed most of the time from May to the end of the year in transferring and relocating records, titles, etc. A great amount of extraordinary expenses in accounting, legal services, filing fees, and traveling expenses were incurred during the year and fortunately, are non-recurring. A summary of the General and Administrative expenses in the amount of $244,727 is as follows:

Accounting and Bank Transfer Fees	*$ 13,292*
Consulting Services	*15,442*
Debenture Printing	*12,331*
Legal Expense	*40,850*
Miscellaneous Expense	*15,639*
Office Supplies, Rent, and Telephone	*22,504*
Promotion and Publication Expense	*20,739*
Salary Expense	*48,207*
Travel Expense	*47,409*
Tax Expense	*8,314*
	$244,727

OIL AND GAS ACTIVITIES

Coincident with the termination of the mining interests, the Company acquired a large holding in gas reserves in the Piceance Basin in Western Colorado. The Company issued $4,000,000 convertible Debentures for this property. At the time of issue, the property had been evaluated by J. C. Sproule and Associates of Calgary as having a fair market value of $7,500,000 Canadian funds. It was the intention of the management to exploit these gas properties and develop additional reserves with the prospect of supplying gas to the oil shale industry in the area. The development of the oil shale industry has been delayed. A revision of the Company's immediate plans and operations was necessary until such time as it is economically feasible to continue development in this area.

During the year the Company was fortunate in acquiring the services of Mr. John H. Jennings who, in August of 1965, was appointed Vice President in charge of Production and Engineering. At the same time, Mr. Hanford Drummond joined our staff in charge of the Geological Department. Mr. Drummond brings with him twelve years experience having been with a major company operating in the Rocky Mountain area and Western Canada.

With the delay in the development of the oil shale, management considered it imperative to search for other reserves and means of creating income for the Company. Considerable time since the change-over and the completion of the transfer has been spent in evaluation and search for assets that will produce income, stability, and broaden the base for the operations of the Company. Currently, the Company is negotiating for the acquisition of a number of producing properties on which evaluation is being completed. If successful in this acquisition program, the Company will realize substantial gains in reserves and income.

The Company has arranged under farmout agreements for a well to be drilled in the Piceance Basin and the re-working of another well at no cost to the Company. We firmly believe that this activity will increase our gas sales which at the moment are minimal.

The Company is negotiating for the drilling of twenty prospective oil wells in Louisiana where, if successful, the Company may acquire a large producing unit in the same area.

The future outlook is optimistic in that the Company has maintained its position in the gas reserves in the Piceance Basin and is in a position to acquire income producing properties which will increase the reserve picture and broaden the operational base of the Company and should create substantial income.

Very truly yours,

Fred W. Pool

Fred W. Pool
President

NORTH AMERICA

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CONSOLIDATED

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ASSETS

CURRENT ASSETS:	
Cash	$ 76,450
Accounts receivable	39,144
Marketable securities, at the lower of cost or market	6,299
Prepayments	615
Current assets before investments pledged as collateral for Series A debentures	$ 122,508
Investments pledged as collateral on Series A debentures (Note 3)	1,800,000
Total current assets	$1,922,508
INVESTMENT IN PROPERTY AND EQUIPMENT:	
Oil and gas properties (Notes 1 and 5)	$4,025,115
Other mineral interests	51,164
Office furniture and fixtures	8,900
	$4,085,179
Less — Reserve for depreciation, depletion and amortization (Note 5)	(4,258)
	$4,080,921
OTHER ASSETS:	
Long-term note receivable (Note 2)	$ 150,000
	$6,153,429

The accompanying notes to financial

..N GAS LIMITED
..l Liability)
..ED SUBSIDIARIES
..BALANCE SHEET
..R 31, 1965
..Dollars)

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable		$ 19,611
Accrued liabilities		34,128
Series A debentures, 4%, due on demand (Note 3)		1,800,000
Total current liabilities		$1,853,739
SERIES B DEBENTURES, 4%, DUE 1977 (Note 3)		$2,200,000
STOCKHOLDERS' EQUITY:		
Capital stock —		
Authorized —		
500,000 redeemable preferred shares, $1 par value (330,000 shares issued and redeemed in 1961)		
10,000,000 common shares, $1 par value		
Issued 3,660,008 common shares	$3,660,008	
Less — Discount thereon	2,424,750	$1,235,258
Capital surplus (Note 6)		251,537
Retained earnings		612,895
Total stockholders' equity		$2,099,690
		$6,153,429

..tements are an integral part hereof.

Approved on behalf of the Board:

Signed: Fred W. Pool, Director

Signed: John S. Ralston, Jr., Director

NORTH AMERICAN GAS LIMITED
(No personal Liability)
AND WHOLLY OWNED SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1965
(Canadian Dollars)

INCOME:	
Ore sales from discontinued mining operations (Note 1)	$ 220,209
Interest on investments	86,237
Gas sales	4,974
	$ 311,420
EXPENSES:	
Discontinued mining operations	$ 80,199
General and administrative	244,727
Interest	98,754
Lease operating expenses	57,645
Depreciation, depletion and amortization (Note 5)	4,221
Other miscellaneous	2,432
	$ 487,978
NET LOSS	$ (176,558)
SPECIAL ITEM:	
Net gain on sale of mining property, equipment and stock (Note 1)	$ 116,550
NET LOSS AND SPECIAL ITEM	$ (60,008)
RETAINED EARNINGS, January 1, 1965, as adjusted (Note 6)	672,903
RETAINED EARNINGS, December 31, 1965	$ 612,895

The accompanying notes to the financial statements are an integral part hereof.

To the Board of Directors,

North American Gas Limited (No Personal Liability):

We have examined the consolidated balance sheet of NORTH AMERICAN GAS LIMITED (No personal Liability), a Canadian corporation, and subsidiaries, as of December 31, 1965, and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

A significant portion of the assets of the Company is represented by the investment in oil and gas properties as further explained in Note 1 to the financial statements. The ultimate realization of this investment is dependent upon the successful development and production of oil and gas reserves.

During 1965, the Company made substantial expenditures for which, because of inadequate records and/or supporting business purpose documentation, we were unable to determine to our satisfaction the business purpose. These expenditures have been submitted to the Board of Directors of the Company for its disposition.

Because of the significance of the matters referred to in the two preceding paragraphs, we are unable to express any opinion on the consolidated financial position of North American Gas Limited (No Personal Liability) and subsidiaries as of December 31, 1965, or the results of their operations for the year then ended.

Signed: Arthur Andersen & Co.

Denver, Colorado,
March 18, 1966.

NORTH AMERICAN GAS LIMITED
(No Personal Liability)
AND WHOLLY OWNED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1965

(1) TERMINATION OF MINING ACTIVITIES AND ACQUISITION OF OIL AND GAS PROPERTIES

In May, 1965, the Company sold substantially all of its mining interests in Canada and terminated its mining activities, realizing a net gain of $116,550 from the sale of mining property, equipment and stock.

Coincident with the divesture of mining interests, the Company acquired from Fred W. Pool, President of the Company, and his associates, interests in oil and gas properties in western Colorado. The Company issued for these properties $4 million of convertible debentures as more fully described in Note 3. The oil and gas properties acquired consisted of approximately 17,000 net acres considered to be proven by J. C. Sproule & Associates, including five producing gas wells, and 230,000 net undeveloped acres. Since the date of acquisition, the Company has relinquished all but approximately 39,000 net acres, retaining substantially all of the acreage considered by J. C. Sproule & Associates to be proven.

The realization of the investment of $4,025,115 in oil and gas properties is dependent upon the successful development and production of sufficient reserves.

(2) LONG-TERM NOTE RECEIVABLE

In connection with the disposition of mining properties as discussed in Note 1, the Company sold certain mining assets for $150,000, evidenced by a promissory note bearing interest at 6% per year, and payable by May 12, 1967. The note is due upon demand by the Company at any time after the net profit, as defined, from a certain mining project equals $150,000. As of December 31, 1965, there were no net profits, as defined, accruing to the project.

(3) CONVERTIBLE DEBENTURES

In connection with the acquisition of the oil and gas properties, the Company issued two classes of convertible debentures. Series A debentures at 4%, with interest payable quarterly, and principal due on demand, in the amount of $1,800,000, were issued to Fred W. Pool. These debentures are secured by $1,800,000 of short-term investments bearing interest from 4.75% to 5.25%, at December 31, 1965. The Series A debentures must be converted to Series B debentures when released by a bank holding the Series A debentures as collateral.

The Series B debentures at 4%, with interest payable quarterly, mature on May 12, 1977, and are redeemable prior to maturity at the option of the Company at a price of $105 if redeemed on or before May 11, 1967, decreasing $.50 each year thereafter. The debentures are convertible at the holders' option at any time after May 11, 1967, (and within 30 days from any callable date) into fully paid common shares of the capital stock of the Company at one share of stock for each dollar of principal. The Series B debentures are unsecured. A sinking fund is required for the Series B debentures, providing for the annual redemption of 1/6 of the total principal amount of the Series B debentures beginning May 12, 1972.

Four million shares of common stock of the Company are reserved for conversion of the debentures.

(4) PRIOR LIENS ON GAS PROPERTIES

At the time of acquisition of the gas properties as discussed in Note 1, there were encumbrances against certain property interests of approximately $374,000. As of December 31, 1965, these encumbrances have been reduced to approximately $320,000. The sellers of the property interests involved have indemnified the Company for any losses that may be incurred by the Company because of this indebtedness. However, the ability of the sellers to so repay the Company for any such losses is not determinable.

(5) ACCOUNTING FOR PURCHASE PRICE OF OIL AND GAS PROPERTIES ACQUIRED

The Company has considered that the total $4,000,000 in debentures paid for the oil and gas properties acquired on May 12, 1965, represents the Company's investment in the oil and gas reserves in total, without allocation of the purchase price to specific leases. The Company intends to capitalize only future productive development costs on these properties, expensing as incurred lease rentals and nonproductive development costs. Those amounts capitalized plus the initial purchase price of $4,000,000 will be amortized on a unit-of-production basis over the productive life of the area.

(6) CAPITAL SURPLUS

Capital surplus represents the excess of the book value of the assets acquired by the Company in 1961 from a predecessor company over the discounted value assigned by the Directors of the Company to the capital stock issued as consideration for the purchase of such assets. In 1964 this amount ($251,537) was transferred to retained earnings but in 1965 was reestablished as capital surplus.

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